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Challenges and approaches to the implementation of 2008 SNA

Challenges related to implementing the System of National Accounts 2008 – Some practical advice

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Summary

Since 2009 countries around the world have started implementing the System of National Accounts 2008. This note highlights the main difficulties that will be encountered by national statistical organizations in the course of the implementation and aims to help them communicate these complexities to users of national account information and government decision makers.

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I. Introduction

1. In 2008, the United Nations, European Commission, International Monetary Fund, World Bank and the Organization for Economic Co-operation and Development jointly released *The System of National Accounts, 2008* (2008 SNA). The System of National Accounts is a statistical framework that details a set of macroeconomic accounts that can be used by governments, businesses, and international organizations for analysis, research, and policy making. The 2008 SNA serves as an update to *The System of National Accounts, 1993* (1993 SNA) which was produced under the auspices of the same five organizations. This update better reflects the changing economic landscape and the advances in methodological research, data sources and compilation methods and provides clarification on a number of issues not clearly stated in the 1993 SNA.

2. The 2008 SNA is not a fundamental change, but is rather considered an update from the 1993 SNA, with the expectation that countries already using the 1993 SNA should be able to implement most of the new standards in a relatively seamless manner. The main thrust of the 2008 SNA is to elaborate on those aspects of economies that have become more prevalent in recent years, or that have garnered recent analytical attention. New features of the 2008 SNA include the treatment and classification of assets; the financial sector; globalization and related issues; the general government and public sector; and the informal sector. Many countries are yet to fully implement the former national accounting standard and they will require substantive efforts to finalize their work on the implementation of the complete set of national accounts.

3. Timely, relevant and comprehensive national account information is a significant intellectual asset for any country, and serves four important functions.

(a) First, it is a framework to measure the economic performance of a country;

(b) Second, international agencies, organizations and businesses (public and private) increasingly require national account information to inform their opinions regarding a country;

(c) Third, timely national accounts provide fiscal and monetary policy makers with the information they need to establish the most appropriate fiscal and monetary policies required for economic growth and stability; and

(d) Finally, national accounts information is a public good allowing citizens to make informed choices in the context of the national economy.

4. Like any asset the national accounts depreciate with time, therefore periodic new investments are crucial, to ensure that they continue to provide high quality services to their users. Implementing 2008 SNA will improve the relevance of a country's national accounts information. This improvement does not come without cost. It requires collaboration with government officials, policy makers, academics, businesses and researchers. It is in this context that the challenges associated with implementing 2008 SNA should be understood and analyzed.

5. Since 2009 countries around the world have started implementing the 2008 SNA. They have faced a number of challenges and will need the help of government officials and data users in implementing this new standard. This note highlights the main difficulties that will be encountered by national statistical organizations. The purpose is to help national account compilers communicate the complexities associated with implementing 2008 SNA so that users of national account information and government decision makers better understand these challenges and the role they can take on in helping with its implementation.

6. The challenges facing national accounts compilers can be categorized into three broad categories: determining the scope, compiling the new estimates while maintaining the existing estimates, and communicating the changes to users. The remainder of the paper describes each of these challenges and offers some practical advice on how to address them.

II. Determining the scope

7. The implementation of 2008 SNA is a demanding task. The first challenge involves determining the degree of compliance to the 2008 SNA standard. It is not practical to assume that any given country can adhere to the new standard in its entirety. The national statistical offices need to know where they should focus their efforts in order to effectively organize their resources. These choices will depend on a number of factors, including understanding the local economic and social information needs, data availability and the availability of resources.

A. Understanding local economic and social information needs

8. Prior to implementing 2008 SNA the national statistical organization should have a good understanding of the basic economic and social information needs within their respective country. This should be obtained through dialogue with policy makers, researchers, government officials, private business and international organizations. It is only through effective and intentional dialogue that the national account compiler will be aware of the information needs of its user community. This dialogue can happen in a number of different venues such as:

(a) Establishment of advisory committees with a broad spectrum of national account users from government, business and academia.

(b) Administration of questionnaires to users regarding information needs for current and future policy needs.

(c) Establishment of working groups to elaborate specific issues or data needs.

9. It is important that national accounts users and government officials make themselves available to provide this input, ensuring that the data are as relevant as possible. Governments can aid in this process by stressing the importance of the consultation process across all government departments and all levels of government.

10. One of the most important quality assurance measures for any statistical organization is a challenging user community. That said, the role of these users should be restricted to concerns of "what" will be produced, with the task of "how" it is produced left to the national accounts compiler. While the goal of the national statistical agency is to ensure users have relevant information, they should ensure that users' involvement in the actual production of the data remains at arms' length.

11. The end result of these discussions should therefore provide the national statistical organization with a prioritized list of data requirements. They can then use this information to guide them as they establish the degree of compliance to the international standard.

12. A side benefit associated with the 2008 SNA implementation is that that these avenues of information exchange can continue beyond the implementation period and be leveraged to ensure the national accounts continue to remain relevant.

B. Data availability

13. In parallel with understanding the needs of the user community, the national accounts compiler will also need access to new and existing sources of information required to implement 2008 SNA. The decision regarding compliance and the scope of the revision should, as much as possible, strike a balance between the needs of the user community and the data available to the compiler.

14. When data are required for high priority issues the national statistical organization needs to be creative in meeting those needs. Large scale new survey's should not be the norm since they are both costly and increase response burden. As much as possible, the national statistical agency should leverage administrative data from existing information collection systems as well as private sector providers of information. In order to do this, the national statistical organization requires the power to negotiate and secure information from government organizations and non-government organizations. These data can take many forms, from operational information that may be useful in building government sector accounts, such as government revenue and expenditures, to information collected and processed by government organizations, such as household and corporation tax returns.

15. To facilitate the availability of the required data national statistical offices could adopt an integrated statistics approach for their national statistical programmes. Integrated statistics calls for a strategic programme for the development of a balanced national statistical system based on country policy priorities and ownership. The development of an integrated statistics approach addresses the institutional and regulatory aspects as well as the statistical operational and infrastructural aspects of the national statistical system using the SNA as an organizing conceptual framework. The comprehensive statistical and institutional perspective provided by the integrated statistics approach enhances the data quality and analytical value of statistics. The integrated statistics approach not only meets the policy demand for data quality and improved timeliness, it also introduces standards for information management that make the production process of statistics better documented, more flexible and transparent, lessen response burden and over time reduce costs.

16. National account users and government officials can help by encouraging data providers (or facilitating the transfer of data from within government) to cooperate with the national statistics office using an integrated statistics approach for the development of national statistical programmes. Tools to encourage such cooperation include legislation, memoranda of understanding, and other data sharing agreements.

C. Securing the necessary resources

17. Another important challenge facing any statistical organization implementing 2008 SNA is their ability to secure the necessary resources for the project. There are two important types of resources that are needed to ensure the success of the project: time (timing) and funding.

18. The implementation team must consider the best time to introduce the new estimates, from the perspective of their users. National accounts estimates are complex and users require time to integrate these data into their economic models and forecasts. The statistical organization must therefore consult with users with respect to the time of the year, and which year, it would be best to introduce the changes. In certain cases the timing of the implementation may also be constrained or restricted by national legislation. The statistical organization should also consult the international community so that the international implementation schedule is consistent with their own national implementation schedule. In addition, obligations to regional institutions (e.g. European Union) must also

be taken into account, especially the requirement to maintain comparability of national account data among member countries.

19. A second consideration to be taken into account is the high probability that the team of individuals implementing an SNA revision is most likely the same team that is responsible for the on-going production of the national accounts estimates. If this is the case, the overall project schedule must be integrated with the on-going production schedule of national accounts information. It is important that a statistical organization take these two factors into account when planning any implementation schedule. In order to address this constraint NSOs may need to delay production schedules, scale back implementation plans or phase in any new changes over a longer time period.

20. It is clear that any project as large and as complex as the implementation of a new accounting standard is going to demand a significant amount of resources. The need to state the obvious – that a statistical organization will require funds to undertake the project is not needed. What is necessary to state is that statistical organizations often forget that SNA implementation results in the development of new and more detailed national account estimates. While initial investment funds may be secured for the implementation portion of the project it is often the case that statistical organizations are not allocated on-going funding for the continued production of the estimates. National account users and government officials must therefore ensure that the statistical organization is not only provided adequate resources for the initial investment but that they have the on-going resources required to carry out the production of the updated and expanded national accounts on an on-going basis.

21. Finally, a statistical organization should not be overly ambitious in its plans. National account users and government officials need to see the 2008 SNA implementation as an on-going process by which a country moves towards compliance with the standard.

III. Compiling the estimates

22. Once the scope of the project is clear, an implementation plan has been put in place and the required source data are collected, the next step is to compile the estimates. Compilation is a complex operation, which if not done correctly can have a significant impact on a country's historical and current economic data. The compilation challenges can be grouped into three broad categories: human capital, back-casting and the need for flexibility.

A. Human capital

23. The System of National Accounts is a complex framework and becoming a national accounts compiler involves years of training and acquired experience.

24. There are three main skill sets a statistical organization needs within its implementation team. The first is a solid understanding of the source data required for compiling the national accounts, the national accounting framework, the linkages between the various accounts and how changes in one account impact other accounts. An improper understanding of these linkages translates into errors during the implementation process.

25. Secondly, the compiler must have a very good understanding of the economic structure and history of the country. Knowledge related to business cycles, government policy changes, the introduction of government programs and tax laws are all important events that need to be considered when compiling national accounts. If this understanding

is missing the impact of these events may be eliminated through a SNA revision back-casting exercise.

26. Finally, the national account compiler must be able to analyze and manipulate a large amount of data. In order to do this they must have access to and be fluent in the latest time series and statistical analysis software. NSOs should ensure that before embarking on a 2008 SNA implementation process they provide their employees with the training the need to utilize the software. Ensuring this type of expertise is one of the most difficult tasks that need to be addressed by a statistical agency. National account users and government officials need to ensure that the statistical agency has access to both national and international training programs and access to experienced academics and government officials.

B. Back-casting

27. Another challenge centers on the continuity of the national accounts time series. In many ways national accounts data form an important part, if not the most important part of a country's economic history. The data themselves can be read like a book highlighting the economic ebbs and flows of a nation. When implementing a new accounting standard a decision needs to be taken with respect to how far back the changes should be applied. A country has two basic choices; it can either re-write history according to the new standard or indicate to users that after a certain point in time the economic history will be viewed through a new lens.

28. Users of national accounts data like long consistent time series. There are some very pragmatic reasons for this, including the ease of use in economic modeling. As such, when economic data are subjected to a new set of concepts and methodologies most analysts prefer that these new concepts and methodologies be carried as far backwards as possible. This is a major challenge for a statistical organization, with three things to be considered during the implementation phase.

(a) The first consideration is the significance of the potential break in the time series. If the break is not significant it may be best for the statistical organization to note the change for users, without back-casting the data. If the break is significant then the statistical organization should try to back-cast the data, but only to a point where the new phenomena begins or to the point where it becomes significant.

(b) A second consideration is the availability of data to undertake a back-casting exercise. While users may desire to have a long consistent time series, national accounts compilers do not always have access to the source data needed compile back periods. As such, they often need to develop modules which will carry the new concepts and methodologies back in time. The statistical organization is often in the best position to do this work, and have the added responsibility of informing users exactly how the data were carried back, allowing users to understand and challenge the decisions that were made.

(c) A third consideration involves the amount of detail that can or should be carried backwards. National accounts compilers generally have access to a greater amount of current period detailed information than they do for any back period. As such, the farther back the new concepts and methodologies are carried the more likely the series will need to be aggregated.

29. Regardless of the approach taken by the statistical organization the implementation of the new accounting standard will often result in the production of a new national accounts database. It is a good practice for the statistical organization to archive the old national accounting database and continue to make it available to data users. This transparency allows users to understand the changes that have been adopted through the

implementation project and will preserve an important part of a country's economic history. It will also allow them to link the different vintages of data, if this has not been done or only partially done by the statistical organization. National account users and government officials will need to educate themselves regarding the new national account databases resulting from the 2008 SNA implementation and how these databases relate to data that was previously published.

C. The need for flexibility

30. While a great deal of work is necessary to identify which priority issues to implement and identify available data sources, even more work is required to determine if the implementation plan can be carried out. For example, a country may choose to capitalize research and development, because it has both a user base for the information and available data. However, it is not until they begin to work on the estimates and develop some preliminary series that they will determine the quality of the data and whether or not it can be implemented into the core set of accounts. Simply put, any implementation plan must have room for flexibility—those areas where plans need to be adjusted.

31. The challenge is not so much the work itself but convincing decision makers that part of the funding that is directed towards implementation of the 2008 SNA must be seen as an investment in our knowledge base of not only what can be done but also what cannot be done at this time.

32. National account users and government officials must therefore understand that plans may change during the implementation phase and be willing to accept instances where planned changes need to be moved to a later date.

IV. Communication

33. One of the most important challenges associated with implementing the 2008 SNA centers around communicating the changes to users of national accounts information.

34. If gross domestic product, net worth or household disposable income are mentioned to a user of economic data, they, for the most part, will be able to explain the concepts behind the measure and how it can be used in economic forecasting and analysis. If, however, the term System of National Accounts was mentioned to data users they are more likely to appear perplexed, wondering "what are you talking about?" The challenge for the statistical organization is to explain the significance of what is being considered when a revision to a country's national accounts is being discussed. You need to speak in the users' terms, mentioning the outputs of the system rather than the system itself. It will be much easier to garner the attention of a user if you say that you are going to increase the level of a country's gross domestic product than if you say you are going to expand the asset boundary to include new intangible assets.

35. A second challenge a statistical organization faces when communicating its 2008 SNA implementation plans lies in identifying and engaging its user base. Most statistical organization have vehicles in place—often in the form of official working groups, presentations and training material—to communicate national accounting changes to monetary authorities, various levels of government and large private financial institutions or economic forecasters. However, processes are often lacking and new lines of communication are often needed pertaining to the use and understanding of the information in academia, by journalists, by private enterprises and by the general public. A country's implementation plan should include a clear communication plan which reaches out to these individuals and groups.

36. The type and timing of the communication to these users needs to be carefully managed. Communicating too early may cause confusion between the existing set of accounts and the future set of accounts. Furthermore, as noted earlier, plans evolve and a country may be unable to implement all of the adjustments it originally intended. Advertising a modification then not following through is both frustrating and confusing to users. On the other hand, communicating too late leaves users without enough time to understand the changes and put them into context.

37. A third communication challenge that a statistical agency must overcome when implementing the 2008 SNA is the perception that the revision is intended to correct an error or errors within their national accounts database. Not only does a statistical organization need to inform users about the nature of revisions but they must also educate users on the reason why national accounts data need to be revised. Unless advised otherwise users of national accounts data assume that any large revision to the data is a result of compilation issues with earlier vintages of the data. In addition, it is important to stress the reason for the revision. The national accounts are revised to ensure the data are relevant and internationally comparable. Often time, uses may think there are political motivations behind the revision (e.g. increasing the level of GDP, changing debt levels). The fact that a NSO follows an international statistical framework ensures statistical independence and integrity. An extensive communication plan would clarify the reason for the revision. The virtues of the revision—increased relevance, detail and international comparability—must be communicated.

38. An additional challenge is that this information does not only need to be communicated when the revisions take place but in many ways the revision itself needs to be documented as an important event in the measurement of the economic history of a country. This is especially important if a country chooses to introduce a break in series with a particular revision. For example, if a country chooses to capitalize research and development starting in 2012 then all users of data for that country must understand that the growth or decline in GDP and investment between 2011 and 2012 is due, in part, to a change in the accounting standard rather than a change in investment. This meta information becomes as important as the data series itself.

39. Finally, users of national accounts information will need substantial lead time to incorporate the new national accounts information. Economic models are often built from national accounts information. If the presentation, detail or timing of national accounts information changes, users will need to adapt their forecasting and analytical models. Users will need to map the new data into their models as well as devote time to understanding the new data to ensure that they maximize their analytical usefulness. In this regard, detailed explanation on the changes induced on national accounts aggregates by the revision could be useful. Forecasters also often have their own time constraints with respect to when they need to produce their forecasts. If they are not provided the data in advance they will not be able to meet their own timelines. One worthwhile way of addressing these challenges is to provide the structure of the new accounts well in advance of the release, releasing satellite accounts where appropriate and releasing the data outside of a normal production period, thereby allowing users to integrate the new information outside of a routine update to the time series.

40. While statistical organizations have a large responsibility in developing a comprehensive communication plan surrounding the implementation of 2008 SNA national account users and government officials have a responsibility as well. They need to engage themselves in understanding what is being communicated and ensuring the information is communicated and understood throughout their organization.

V. Conclusion

41. This note provides both practical advice to the statistical organization in implementing a new accounting standard as well as guidance to national account users and government officials about how they can help to ensure a successful implementation. The role of the national account users and government official cannot be overlooked and therefore the note concludes by summarizing this role as follows:

National account users and government officials need to

(a) Make themselves available to consult with national account compilers to help determine the scope of the 2008 SNA Implementation.

(b) Help national account compilers secure access to sources of information to aid in the 2008 SNA implementation.

(c) Help national account compilers secure the necessary financial resources for both the initial investment and on-going production of the expanded national account information.

(d) Ensure statistical organisations have human resources necessary to carry out the implementation project.

(e) Understand the new national account databases, their limitations and their relationship to existing national account information.

(f) Communicate the changes within their local user community or government organisation.